

CONCORD ACADEMY-BOYNE

REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)  
for the year ended June 30, 2006

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*Smolinski & Christman, P.C.*  
*Certified Public Accountants*

*Janice W. Smolinski, C.P.A.*  
*Kevin R. Christman, C.P.A.*  
*Mona C. O'Neil, C.P.A.*  
*Daniel D. Rasmussen, C.P.A.*  
*Ted M. Teller, C.P.A.*

*555 Michigan Street*  
*Petoskey, Michigan 49770*  
*(231) 347-5555*  
*Fax (231) 347-5639*

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*Adam B. Caren, C.P.A.*

July 31, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Concord Academy-Boyne:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Concord Academy-Boyne's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne, as of June 30, 2006, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Concord Academy-Boyne  
July 31, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2006, on our consideration of Concord Academy-Boyne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Smolinski & Christman, P.C.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Concord Academy-Boyne's (the Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The Academy's financial status improved with an increase in net assets of \$36,859, from \$823,990 to \$860,849.
- Revenues decreased by 17.7 percent, from \$1,561,105 to \$1,326,879, while expenses decreased by 18.5 percent, from \$1,528,447 to \$1,290,020.
- Blended enrollment used for state aid purposes was 181.42 in June, 2006 compared to 196.14 in June, 2005.
- The Academy essentially settled all matters related to its claims against former contractors for building problems. It now seeks to re-finance its two separate debts (1998 and 2003 series participation notes) into one, on more favorable terms.

### Overview of the Financial Statements

This annual report consists of three parts:

1. Management's discussion and analysis (this section).
2. Basic financial statements.
  - a. Academy-wide financial statements.
    - i. Statement of Net Assets.
    - ii. Statement of Activities.
  - b. Fund financial statements.
    - i. Governmental funds statements.
    - ii. Fiduciary funds statements.
3. Required supplementary information.

The two Academy-wide financial statements provide short-term and long-term information about the Academy's overall financial status.

The fund financial statements focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year.

### Major Features of the Academy-Wide and Fund Financial Statements

The table below summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

	Academy-wide statements	Fund Financial	Statements
		Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

### Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities - The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has two kinds of funds:

Governmental fund - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in

and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds - The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

### Financial analysis of the Academy as a whole

The Academy's combined net assets were larger on June 30, 2006 than they were the year before, increasing by \$36,859 to \$860,849. State aid revenue decreased by 5.1 percent to \$1,247,938. This is due to a decrease in the blended enrollment count. The total cost of instruction decreased by 20.0 percent to \$662,589. This is due, in part, to a revised benefits package offered to the contracted teaching staff and decreased staffing.

A summary of the Academy's net assets as of June 30 is as follows:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 703,259	\$ 700,781
Capital assets, net	2,424,050	2,504,318
Other noncurrent assets	<u>377,623</u>	<u>384,948</u>
Total assets	<u>\$3,504,932</u>	<u>\$3,590,047</u>
Current liabilities	\$ 264,083	\$ 286,057
Noncurrent liabilities	<u>2,380,000</u>	<u>2,480,000</u>
Total liabilities	<u>\$2,644,083</u>	<u>\$2,766,057</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 321,673	\$ 314,266
Restricted for debt service	122,341	115,613
Unrestricted and undesignated	<u>416,835</u>	<u>394,111</u>
Total net assets	<u>\$ 860,849</u>	<u>\$ 823,990</u>

A summary of the Academy's changes in net assets as of June 30 is as follows:

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues, State and Federal categorical grants	\$ 42,234	\$ 15,098
General revenues:		
State aid - unrestricted	1,247,938	1,314,872
Interest	14,984	6,080
Miscellaneous	14,223	25,055
Other revenue, lawsuit settlement	<u>7,500</u>	<u>200,000</u>
Total revenues	1,326,879	1,561,105
Expenses:		
Instruction	662,589	828,591
Support services	357,488	423,481
Interest on long-term debt	182,350	188,731
Unallocated depreciation	80,269	80,320
Unallocated amortization	<u>7,324</u>	<u>7,324</u>
Total expenses	<u>1,290,020</u>	<u>1,528,447</u>
Change in net assets	<u>\$ 36,859</u>	<u>\$ 32,658</u>

### Financial analysis of the Academy's funds

The Academy's stable financial position is the result of cost reduction measures. Despite a decline in enrollment and the additional debt service for building repairs, management and staff controlled operating expenses and maintained the financial health of the Academy. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$416,835, an increase of \$22,724 over last year's ending fund balance of \$394,111. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's general fund revenue (96 percent). A year-by-year comparison of the Academy's funds will demonstrate management's continued diligence in controlling cost to match revenues.

	<u>06/30/2005</u>	<u>06/30/2006</u>	<u>% Increase</u>
General Fund Balance	\$ 394,111	\$ 416,835	5.8%
General Fund Revenues	\$1,355,797	\$1,305,731	-3.7%
General Fund Expenditures	\$1,516,739	\$1,014,616	-33.1%
Cost of instruction	\$ 828,591	\$ 662,589	-20.0%
Support Service Expenses	\$ 428,192	\$ 352,027	-17.8%

### General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget. These budget amendments fall into several categories:

- A revenue increase from federal sources.
- An increase in the state aid for grants received.
- Changes in assumptions (e.g. an increase in secretarial position and changes in staff benefits) since the original budget was adopted.
- Decreases in Maintenance of Plant for various cost saving measures.

While academy's final budget for the General Fund anticipated expenditures would exceed revenues by \$11,589, the actual results for the year showed revenues over expenditures of \$22,724. Actual revenues were \$15,339 lower than budgeted. The actual total expenditures were \$318,043 under budget. This large variance in expenses is due to the establishment of a Debt Service Fund, where principal and interest payments were accounted, instead of the General Fund, as budgeted.

### Capital asset and debt administration

By June 30, 2006, the Academy had invested \$2,424,050 in capital assets net of accumulated depreciation. These assets are land, land improvements, buildings and improvements, outdoor equipment, computers and other equipment, and library materials. Accumulated depreciation on these assets was \$519,183 as of June 30, 2006. Outstanding long-term debt incurred to invest in these assets was \$2,480,000 as of June 30, 2006. During the year, the Academy retired \$95,000 of debt. The Academy's fiscal year 2007 initial budget anticipates no spending for capital projects.

The Academy's capital assets at June 30, 2006 are as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 32,000	\$ 32,000
Land improvements	20,000	20,000
Buildings and improvements	2,802,210	2,802,210
Outdoor equipment	20,418	20,418
Computers and other equipment	52,850	52,850
Library materials	<u>15,755</u>	<u>15,755</u>
Total capital assets	2,943,233	2,943,233
Less accumulated depreciation	<u>(519,183)</u>	<u>(438,914)</u>
Total capital assets, net	<u>\$2,424,050</u>	<u>\$2,504,319</u>



### **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The 2006-2007 foundation allowance (state aid funding) from the State of Michigan has been increased from \$6,875 to \$7,085 per student. The foundation allowance represents 96 percent of the total Academy general fund revenue. Due to the economic climate in the State of Michigan, further fluctuations in foundation allowance are possible.
- The Academy is currently seeking to refinance its debt, which could save approximately \$50,000 per year in interest expense.
- Requirements of the No Child Left Behind Act could make it difficult for a small school such as ours to employ highly-qualified teachers for every subject.
- Student enrollment, because of per pupil state aid, is the driving force for the majority of our revenue. The Academy has taken measures to increase enrollment. Meanwhile, our local competitors have all constructed new facilities to attract students. CAB's goal is to increase enrollment until it reaches capacity (260 students).

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 00401 E. Dietz Road, Boyne City, Michigan 49712.

CONCORD ACADEMY - BOYNE  
STATEMENT OF NET ASSETS  
June 30, 2006

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	Governmental Activities
<hr/>	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 309,574
Restricted investments	156,860
Receivables:	
State of Michigan	226,547
Federal government	6,966
Other	1,862
Prepaid insurance	1,450
	<hr/>
Total current assets	703,259
NONCURRENT ASSETS:	
Restricted investments	280,575
Capital assets:	
Land	32,000
Land improvements	20,000
Buildings and improvements	2,802,210
Outdoor equipment	20,418
Computers and other equipment	52,850
Library materials	15,755
Less accumulated depreciation	(519,183)
	<hr/>
Total capital assets, net of depreciation	2,424,050
Unamortized debt issuance costs	97,048
	<hr/>
Total noncurrent assets	2,801,673
	<hr/>
Total assets	\$ 3,504,932
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 17,305
Accrued interest	45,158
Accrued contracted services	94,824
Accrued expenditures	6,796
Current portion of long-term debt	100,000
	<hr/>
Total current liabilities	264,083
NONCURRENT LIABILITY,	
Noncurrent portion of long-term debt	2,380,000
	<hr/>
Total liabilities	2,644,083
NET ASSETS:	
Invested in capital assets, net of related debt	321,673
Restricted for debt service	122,341
Unrestricted and undesignated	416,835
	<hr/>
Total net assets	860,849
	<hr/>
Total liabilities and net assets	\$ 3,504,932
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The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
STATEMENT OF ACTIVITIES  
for the year ended June 30, 2006

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		<u>Program Revenue</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
	<u>Expenses</u>	<u>Services</u>	<u>Grants</u>	<u>Net (Expense)</u>
				<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
GOVERNMENTAL ACTIVITIES:				
Instruction, basic programs	\$ 662,589	\$ -	\$ 42,234	\$ (620,355)
Support services	357,488	-	-	(357,488)
Interest on long-term debt	182,350	-	-	(182,350)
Unallocated depreciation	80,269	-	-	(80,269)
Unallocated amortization	<u>7,324</u>	<u>-</u>	<u>-</u>	<u>(7,324)</u>
Total governmental activities	<u>\$1,290,020</u>	<u>\$ -</u>	<u>\$ 42,234</u>	(1,247,786)
GENERAL REVENUES:				
State of Michigan school aid unrestricted				1,247,938
Interest income				14,984
Miscellaneous				14,223
OTHER REVENUES, Lawsuit settlement				<u>7,500</u>
Total general and other revenues				<u>1,284,645</u>
CHANGE IN NET ASSETS				36,859
NET ASSETS, beginning of year				<u>823,990</u>
NET ASSETS, end of year				<u>\$ 860,849</u>

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2006

	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 309,574	\$ -	\$ -	\$ 309,574
Investments	-	-	437,435	437,435
Receivables:				
State of Michigan	226,547	-	-	226,547
Federal government	6,966	-	-	6,966
Other	1,862	-	-	1,862
Prepaid insurance	1,450	-	-	1,450
Due from general fund	-	-	10,639	10,639
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ 546,399	\$ -	\$ 448,074	\$ 994,473
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 17,305	\$ -	\$ -	\$ 17,305
Accrued contracted services	94,824	-	-	94,824
Accrued expenditures	6,796	-	-	6,796
Due to debt service fund	10,639	-	-	10,639
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	129,564	-	-	129,564
<b>FUND BALANCES:</b>				
Restricted for debt service	-	-	448,074	448,074
Unreserved and undesignated	416,835	-	-	416,835
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	416,835	-	448,074	864,909
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	\$ 546,399	\$ -	\$ 448,074	\$ 994,473
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2006

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Total governmental fund balances	\$ 864,909
Amounts reported for governmental activities in the statement of net assets are different because:	
Net capital assets used in governmental activities are not financial resources and are not reported in the funds	2,424,050
Unamortized debt issuance costs are not financial resources and are not reported in the funds	97,048
Long-term debt is not due and payable in the current period and is not reported in the funds	(2,480,000)
Accrued interest is not recorded as a liability in governmental funds, it is recorded when paid	(45,158)
Net assets of governmental activities	<u>\$ 860,849</u>

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
for the year ended June 30, 2006

	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local sources	\$ 15,559	\$ -	\$ 13,648	\$ 29,207
State sources	1,248,312	-	-	1,248,312
Federal sources	41,860	-	-	41,860
Total revenues	1,305,731	-	13,648	1,319,379
EXPENDITURES:				
Instruction, basic programs	662,589	-	-	662,589
Support services:				
General administration	61,844	-	-	61,844
School administration	158,786	-	-	158,786
Business services	64,001	-	-	64,001
Operation and maintenance of plant	67,396	-	-	67,396
Total support services	352,027	-	-	352,027
Debt service:				
Principal retirement	-	-	95,000	95,000
Interest	-	-	184,069	184,069
Escrow agent fees	-	-	5,461	5,461
Total debt service	-	-	284,530	284,530
Total expenditures	1,014,616	-	284,530	1,299,146
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	291,115	-	(270,882)	20,233
OTHER FINANCING SOURCES (USES):				
Lawsuit settlement	7,500	-	-	7,500
Operating transfers in	-	-	718,956	718,956
Operating transfers out	(275,891)	(443,065)	-	(718,956)
Total other financing sources (uses)	(268,391)	(443,065)	718,956	7,500
NET CHANGE IN FUND BALANCES	22,724	(443,065)	448,074	27,733
FUND BALANCE, beginning of year	394,111	443,065	-	837,176
FUND BALANCE, end of year	\$ 416,835	\$ -	\$ 448,074	\$ 864,909

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
for the year ended June 30, 2006

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Net changes in fund balances total governmental funds	\$ 27,733
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(80,269)
Governmental funds report debt issuance costs as expenditures. In the statement of activities, these costs are allocated over the life of the long-term debt as amortization	
	(7,324)
Accrued interest on participation notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of year	46,877
Accrued interest payable, end of year	(45,158)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	
	95,000
Change in net assets of governmental activities	\$ 36,859

The accompanying notes are a part of the financial statements.

CONCORD ACADEMY - BOYNE  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006

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		Agency Fund Student Activities
	ASSETS	
Cash		\$ 25,212
		<u>25,212</u>
	LIABILITIES	
Due to student groups		\$ 25,212
		<u>25,212</u>

The accompanying notes are a part of the financial statements.



CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of Concord Academy-Boyne, (the Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

Reporting Entity

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation September 1, 1995.

The Academy has a five year agreement with Lake Superior State University (LSSU) to organize and administer the Academy (expires June 30, 2010). LSSU is paid 3 percent of state aid payments for oversight services. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy.

In evaluating how to define the Academy, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statements No. 14 and No. 39.

Based upon the application of these criteria, the basic financial statements of the Academy contain all the funds controlled by the Academy's Board of Directors as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Academy nor is the Academy a component unit of another entity.

Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Government-Wide And Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *capital project fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Government-Wide And Fund Financial Statements (Continued)

**Fiduciary funds** account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Academy holds for student and parent activity groups in an agency capacity.

Measurement Focus, Basis of Accounting and Basis of Presentation

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued):

**State Revenue (Continued)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2005 to August, 2006. Thus, the unpaid portion at June 30th is reported as due from State of Michigan.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for those programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year were recorded as deferred revenue.

Other Accounting Policies

**Cash and Cash Equivalents**

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectible amounts, if any.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	40 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Certificates of participation premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the certificates of participation using the straight line method over the term of the related debt. Amortization of debt issuance costs for the year ended June 30, 2006 amounted to \$7,324.

In the fund financial statements, governmental fund types recognize certificates of participation premiums and discounts, as well as certificates of participation issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt issuance cost expenditures.

**Fund Balance**

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE B - BUDGETING:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain comments from the public.
3. Prior to July 1, the budget is legally adopted by enactment of a General Appropriations Act pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS:

As of June 30, 2006, the Academy had the following investments:

Investment Type	<u>Fair Value</u>	Weighted average maturity (years)	Standard & Poor's Rating	<u>%</u>
First American Treasury Obligations Fund - class D	<u>\$437,435</u>	<u>0.0082</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>0.0082</u>		
1 day maturity equals 0.0027, one year equals 1.00				

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE C - DEPOSITS AND RESTRICTED INVESTMENTS (Continued):

The Academy invests certain funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2006, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted for payment of debt service as follows:

Debt Service Reserve Accounts - The balance in these accounts will be used to make the final principal payments on the certificates of participation. The earnings on these accounts will be used to reduce the annual debt service payments.	\$280,575
Pledged Revenue/Capitalized Interest/Miscellaneous Accounts - Include amounts withheld from the Academy's monthly foundation grant (up to 20 percent) and reserved for debt service.	<u>156,860</u>
Total held by trustee	<u><u>\$437,435</u></u>

Interest Rate Risk

The Academy does not have specific investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2006, the Academy had \$437,435 at fair market value invested in a money market fund. The average maturity of this fund is less than one year.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a formal deposit policy for custodial credit risk. At June 30, 2006, the bank balance was \$335,751 of which \$228,647 was uninsured and uncollateralized.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy does not have a formal investment policy for custodial credit risk. However, all of the investments are in the name of the Academy and are held in trust accounts with the financial institution from which they were purchased.

CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE D - CAPITAL ASSETS:

The following is a summary of the changes in the various fixed asset class categories for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Depreciable capital assets:				
Land improvements	20,000	-	-	20,000
Buildings and improvements	2,802,210	-	-	2,802,210
Outdoor equipment	20,418	-	-	20,418
Computers and other equipment	52,850	-	-	52,850
Library materials	<u>15,755</u>	<u>-</u>	<u>-</u>	<u>15,755</u>
Total depreciable capital assets	<u>2,911,233</u>	<u>-</u>	<u>-</u>	<u>2,911,233</u>
Total capital assets	2,943,233	-	-	2,943,233
Accumulated depreciation	<u>438,914</u>	<u>80,269</u>	<u>-</u>	<u>519,183</u>
Net capital assets	<u>\$2,504,319</u>	<u>\$ (80,269)</u>	<u>\$ -</u>	<u>\$2,424,050</u>

Depreciation for the year ended June 30, 2006 amounted to \$80,269. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE E - LONG-TERM DEBT:

The following is a summary of long-term debt activity for the year ended June 30, 2006:

	<u>Series 1998 Certificates of Participation</u>	<u>Series 2003 Certificates of Participation</u>	<u>Total</u>
Long-term debt, July 1, 2005	\$1,930,000	\$645,000	\$2,575,000
Principal payments	<u>(75,000)</u>	<u>(20,000)</u>	<u>(95,000)</u>
Balance, June 30, 2006	1,855,000	625,000	2,480,000
Less current portion	<u>(80,000)</u>	<u>(20,000)</u>	<u>(100,000)</u>
Total due after one year	<u>\$1,775,000</u>	<u>\$605,000</u>	<u>\$2,380,000</u>

Long-term debt at June 30, 2006, consists of the following:

Certificates of participation (series 1998), payable in annual installments ranging from \$80,000 to \$215,000 through October, 2019, with semi-annual interest payments at 7.0 percent. Secured by pledged state aid revenues, a first mortgage on the building, and a security interest in any equipment purchased with financing arrangement proceeds.

\$1,855,000

Certificates of participation (series 2003), payable in annual installments ranging from \$20,000 to \$130,000 through October, 2019, with semi-annual interest payments at 8.125 percent. Secured by pledged state aid revenues and a first mortgage on the improvements to and renovation of the building.

625,000

Total

\$2,480,000



CONCORD ACADEMY-BOYNE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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NOTE E - LONG-TERM DEBT (Continued):

Total principal and interest maturities on the long-term debt outstanding as of June 30, 2006, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 100,000	\$ 177,019	\$ 277,019
2008	110,000	169,416	279,416
2009	120,000	161,084	281,084
2010	130,000	152,025	282,025
2011	135,000	142,413	277,413
2012 through 2016	860,000	539,856	1,399,856
2017 through 2020	<u>1,025,000</u>	<u>166,391</u>	<u>1,191,391</u>
Total	<u>\$2,480,000</u>	<u>\$1,508,204</u>	<u>\$3,988,204</u>

Total interest expense for the year ended June 30, 2006 was \$182,350.

NOTE F - INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>
General <u>\$10,639</u>	Debt Service <u>\$10,639</u>

The outstanding balances between funds represents amounts owed to the debt service fund due to shortfalls in the amounts required to be "set-aside" for future debt service.

NOTE G - CONTRACTED SERVICES:

The Academy contracted with Lakeshore Educational Management, Inc. (Lakeshore) to provide teaching and administrative services for the Academy. The payments to Lakeshore cover expenses associated with the teachers and administrative personnel, including wages, payroll taxes, and benefits. Lakeshore charged a \$750 semi-monthly administration fee. Total expense for the year ended June 30, 2006 under the contracts was approximately \$820,000, including \$18,750 in administrative fees.

NOTE H - TRANSFERS:

During the year ended June 30, 2006, transfers between funds occurred. The general fund transferred \$275,891 to the debt service fund to accumulate long-term debt payments. The capital project fund transferred \$443,065 to the debt service fund to close out the capital project fund; the majority of those funds were set aside from the original debt issuance for payment of the final amounts due under the participation notes.

NOTE I - RISK MANAGEMENT:

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters.

The Academy carries commercial insurance for the various risks of loss.

## REQUIRED SUPPLEMENTARY INFORMATION

CONCORD ACADEMY - BOYNE  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
for the year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget - Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 16,600	\$ 23,800	\$ 15,559	\$ (8,241)
State sources	1,253,000	1,262,770	1,248,312	(14,458)
Federal sources	<u>-</u>	<u>34,500</u>	<u>41,860</u>	<u>7,360</u>
Total revenues	1,269,600	1,321,070	1,305,731	(15,339)
EXPENDITURES:				
Instruction, basic programs	650,240	687,440	662,589	24,851
Support services:				
General administration	66,100	72,350	61,844	10,506
School administration	125,450	156,950	158,786	(1,836)
Business services	68,950	65,550	64,001	1,549
Operation and maintenance of plant	<u>79,700</u>	<u>71,300</u>	<u>67,396</u>	<u>3,904</u>
Total support services	340,200	366,150	352,027	14,123
Debt service:				
Principal	95,000	95,000	-	95,000
Interest	<u>184,069</u>	<u>184,069</u>	<u>-</u>	<u>184,069</u>
Total debt service	<u>279,069</u>	<u>279,069</u>	<u>-</u>	<u>279,069</u>
Total expenditures	<u>1,269,509</u>	<u>1,332,659</u>	<u>1,014,616</u>	<u>318,043</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	91	(11,589)	291,115	302,704
OTHER FINANCING SOURCES (USES):				
Lawsuit settlement	-	-	7,500	7,500
Transfer from capital project fund	281,369	281,369	-	(281,369)
Transfer to capital project fund	<u>(281,369)</u>	<u>(281,369)</u>	<u>(275,891)</u>	<u>5,478</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(268,391)</u>	<u>(268,391)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 91</u>	<u>\$ (11,589)</u>	22,724	<u>\$ 34,313</u>
FUND BALANCE, beginning of year			<u>394,111</u>	
FUND BALANCE, end of year			<u>\$ 416,835</u>	

*Smolinski & Christman, P.C.*  
*Certified Public Accountants*

*Janice W. Smolinski, C.P.A.*  
*Kevin R. Christman, C.P.A.*  
*Mona C. O'Neil, C.P.A.*  
*Daniel D. Rasmussen, C.P.A.*  
*Ted M. Teller, C.P.A.*

*555 Michigan Street*  
*Petoskey, Michigan 49770*  
*(231) 347-5555*  
*Fax (231) 347-5639*

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*Adam B. Caren, C.P.A.*

July 31, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Concord Academy-Boyne:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Concord Academy-Boyne (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the Academy and have issued our report thereon dated July 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Concord Academy-Boyne's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors  
Concord Academy-Boyne  
July 31, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Concord Academy-Boyne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Concord Academy-Boyne in a separate letter dated July 31, 2006.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Smolinski & Christman, P.C.*

*Smolinski & Christman, P.C.*  
*Certified Public Accountants*

*Janice W. Smolinski, C.P.A.*  
*Kevin R. Christman, C.P.A.*  
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*Daniel D. Rasmussen, C.P.A.*  
*Ted M. Teller, C.P.A.*

*555 Michigan Street*  
*Petoskey, Michigan 49770*  
*(231) 347-5555*  
*Fax (231) 347-5639*

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*Adam B. Caron, C.P.A.*

July 31, 2006

To the Board of Directors of  
Concord Academy - Boyne:

We have audited the financial statements of Concord Academy - Boyne for the year ended June 30, 2006, and have issued our report thereon dated July 31, 2006. In planning and performing our audit of the financial statements of Concord Academy - Boyne, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. During our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and improving financial reporting.

The following comment was reported last year and is being repeated this year:

Check Signing Procedures

Board policy states that checks over \$500 must have dual signatures unless they are for recurring expenses. We noted several checks over \$500 that did not have dual signatures. We recommend that proper dual signatures be obtained on applicable checks. This policy was put in place to address the lack of segregation of duties in the accounting area and needs to be followed closely.

We would like to acknowledge the courtesy and assistance extended to us by all the Academy's personnel during our audit. Should you have questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

*Smolinski & Christman, P.C.*

Smolinski & Christman, P.C.